

Message Text

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ACTION ARA-10

INFO OCT-01 EA-07 ISO-00 ITC-01 AID-05 CIAE-00 COME-00

EB-07 FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02

OPIC-03 SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05

SS-15 STR-04 CEA-01 L-03 H-02 DODE-00 PA-01 PRS-01

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R 231230Z APR 76

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC 5169

INFO AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

AMEMBASSY TOKYO

LIMITED OFFICIAL USE SECTION 1 OF 2 BRASILIA 3454

E.O. 11652: N/A

TAGS: EMIN, BR

SUBJECT: MINISTER UEKI FOCUSES ON MINING SECTOR, CALLS FOR
QUADRUPLING OF MINERALS EXPORTS

CONGEN RIO PREPARED THIS TELEGRAM, EMBASSY CONCURS.

1. SUMMARY. MINISTER OF MINES AND ENERGY SHIGEAKI UEKI,
HAVING MADE HIS MARK IN THE ENERGY FIELD, SEEMS NOW TO BE
GIVING GREATER ATTENTION TO THE MINING SECTOR. UEKI SEEKS TO
ACCELERATE THE GROWTH OF EXPORTS (OVER \$1.1 BILLION IN
1975), SPUR DOMESTIC EXPLOITATION OF MINERALS NOW IMPORTED,
AND SOLVE PROBLEMS WITH SEVERAL PROSPECTIVE INVESTMENTS (CARAJAS,
ALBRAS). UEKI RECENTLY CALLED FOR A QUADRUPLING OF MINERALS
EXPORTS BY THE END OF THE DECADE. IN SUPPORT OF THIS GOAL,
UEKI HAS ENCOURAGED THE MINING SECTOR TO STEP UP INVESTMENTS
AND PRODUCTION. BUT UNLESS IRON ORE PRICES SKYROCKET,
IT SEEMS UNLIKELY THAT MINERALS EXPORTS COULD RISE FROM OVER
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\$1 BILLION TO UEKI'S PROPOSED TARGET OF \$4 BILLION BY 1980.

OUR JUDGEMENT IS THAT, BARRING SKYROCKETING IRON ORE PRICES, THE SECTOR PROBABLY COULD QUADRUPLE EXPORTS ONLY WHEN SEVERAL PLANNED EXPORT-ORIENTED MINERALS PROJECTS (CARAJAS, ALBRAS, BAMINCO NICKEL) COME ON STREAM--PROBABLY NOT BEFORE THE EARLY 1980S. END SUMMARY

2. HAVING MADE HIS MARK IN NUCLEAR ENERGY (THE AGREEMENT WITH WEST GERMANY), IN PETROLEUM RISK CONTRACTS, AND ON THE GOB'S STRATEGY OF HIGHER FUEL PRICES TO REDUCE CONSUMPTION, MINISTER UEKI HAS BEGUN TO TURN MORE OF HIS CONSIDERABLE DRIVE TO MINING.

3. UEKI'S PERFORMANCE IN MINING THUS FAR HAS BEEN MIXED ALTHOUGH IT IS TOO EARLY TO REACH DEFINITIVE CONCLUSIONS. ON THE ONE HAND, MOST OF THE ONE HUNDRED COMPANIES (HALF FOREIGN-OWNED) WORKING ON SOME FIFTY MINERALS SEEM TO BE OPERATING RELATIVELY WELL UNDER THE LIBERAL MINING CODE. THE DOMINANT COMPANY, THE GOB-CONTROLLED COMPANHIA VALE DO RIO DICE (CVRD), HAS EXPANDED RAPIDLY OVER THE PAST FIVE YEARS TO THE POINT THAT IT MAY HAVE BECOME THE TAIL WAGGING THE MINISTERIAL DOG. (CVRD COMES UNDER MINISTER UEKI'S AUTHORITY). LAST YEAR CVRD HAD EXPORT SALES OF \$611 MILLION AND NET PROFITS OF \$175 MILLION. ON THE OTHER HAND, UEKI HAS BEEN UNABLE THUS FAR TO END THE DELAYS IN COMMENCING SEVERAL MINERALS PROJECTS, ESPECIALLY THE HUGE CARAJAS IRON ORE AND ALBRAS ALUMINUM PROJECTS. IT IS UNCLEAR HOW MUCH HE COULD HAVE DONE TO SPUR THESE PROJECTS: REGARDING CARAJAS, CVRD - U.S. STEEL DISPUTES MAY PROVE DIFFICULT FOR UEKI AND THE GEISEL ADMINISTRATION TO RESOLVE; AND REGARDING ALBRAS THE JAPANESE HAVE HAD TROUBLE RAISING FINANCING AND JAPANESE PROJECTIONS FOR REDUCED ALUMINUM NEEDS FROM BRAZIL APPARENTLY HAVE DAMPENED JAPANESE ENTHUSIASM FOR ALBRAS. FURTHER DELAYS IN THESE AND OTHER PROJECTS WOULD REPRESENT DISAPPOINTING, POLITICALLY-EMBARRASSING SETBACKS FOR THE GEISEL GOVERNMENT'S GOALS FOR IMPORT SUBSTITUTION AND EXPORT EXPANSION.

4. IN TURNING GREATER ATTENTION TO MINERALS, UEKI HAS CONCENTRATED ON: (1) ENCOURAGING GREATER EXPORTS (WHICH SURPASSED \$1.1 BILLION LAST YEAR, COMPARED WITH \$760 LIMITED OFFICIAL USE

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MILLION IN 1974 AND \$460 MILLION IN 1973); (WL SPURRING EXPLOITATION OF MINERALS IN WHICH BRAZIL IS NOT YET SELF-SUFFICIENT (ESPECIALLY NON-FERROUS METALS); AND (3) TRYING TO SOLVE SOME OF THE SECTOR'S SPECIFIC INVESTMENT PROBLEMS (CARAJAS, ALBRAS).

5. IN THE SPACE OF A WEEK, UEKI HELD SEPARATE MEETINGS WITH BRAZIL'S IRON ORE, MANGANESE AND ASBESTOS PRODUCERS

(THE FIRST TWO COMMODITIES COMMPRISE ABOUT 85 PERCENT OF THE COUNTRY'S MINERALS EXPORTS), EXHORTING THEM TO CONTINUE TO STEP UP INVESTMENT AND PRODUCTION. UEKI PROCLAIMED THAT THE GOB'S GOAL WAS TO QUADRUPLE REVENUES FROM MINERALS EXPORTS DURING THE NEXT FOUR YEARS. AS A RESULT OF THIS FLURRY OF MEETINGS AND HIS HIGHLY AMBITIOUS EXPORT EXPECTATIONS, MANY LOCAL OBSERVERS HAVE LINKED UEKI'S NEWLY AWAKENED PUBLIC INTEREST IN MINERALS TO SECRETARY KISSINGER'S VISIT AND HIS REMARKS THAT ONE WAY FOR BRAZIL TO IMPROVE ITS NEGATIVE TRADE BALANCE WITH THE US WOULD BE TO EXPORT MORE RAW MATERIALS. UEKI'S OFFICE, HOWEVER, HAS DENIED ANY CONNECTION BETWEEN HIS FORTHCOMING TRIP AND THE SECRETARY'S REMARKS.

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6. EARLIER THIS YEAR, THE MINISTER VISITED JAPAN TO DISCUSS MINERALS AND METALS PROJECTS, BUT THE RESULTS APPEAR TO HAVE BEEN LIMITED (TOKYO 2573). THE JAPANESE STILL SEEM RELUCTANT TO MOVE QUICKLY ON ALBRAS AND APPARENTLY ARE NO LONGER INTERESTED IN PARTICIPATING WITH CVRD ON THE

RELATED \$500 MILLION ALUNORTE PROJECT TO SUPPLY ALUMINA TO ALBRAS. JAPANESE FIRMS ALSO REPORTEDLY DECLINED TO PARTICIPATE IN THE NEW \$220 MILLION ALUMINUM PLANT TO BE BUILT NEAR RIO DE JANEIRO (SEE RIO 1126). THE \$3 BILLION TUBARAO STEEL PROJECT INVOLVING SIDERBRAS, CVRD, KAWASAKI OF JAPAN, AND FINSIDER OF ITALY IS GOING AHEAD. BUT A FINAL DECISION BY THE JAPANESE ON THE PROPOSED STEEL MILL FOR ITAQUI (SIDERBRAS AND NIPPON STEEL) PROBABLY WILL NOT BE FORTHCOMING UNTIL THE OUTSTANDING PROBLEMS ON CARAJAS ARE RESOLVED. ACCORDING TO UEKI, NIPPON STEEL HAS CONFIRMED ITS INTEREST IN PARTICIPATING IN CARAJAS, WHICH WILL SUPPLY IRON ORE TO THE ITAQUI MILL.

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7. THE GOB HAS REVERSED ITS PLANS TO ALLOW CPRM, THE STATE-OWNED MINERALS EXPLORATION COMPANY, TO EXPAND INTO MING VENTURES. IN FEBRUARY UEKI ANNOUNCED THAT LEGISLATION HAD BEEN PROPOSED TO THE CONGRESS WHICH WOULD HAVE ALLOWED CPRM TO ENTER INTO MINING PROJECTS ON A MINORITY SHARE-HOLDING BASIS. CPRM IS ALREADY IN THE MIDST OF DEVELOPING, ON ITS OWN FOR THE MOMENT, A LARGE PHOSPHATE DEPOSIT AT PATOS DE MINAS IN MINAS GERAIS. ON MARCH 31, UEKI INAUGURATED CPRM'S \$5 MILLION SEMI-INDUSTRIAL PLANT DESIGNED TO PRODUCE 150,000 TONS PER DAY OF P2O5 CONCENTRATE. AT THE INAUGURATION, UEKI ANNOUNCED A SURPRISE REVERSAL OF THE GOB'S PLANS TO ALLOW CPRM TO BECOME A MINING COMPANY. HE SAID THE PATOS DE MINAS PROJECT EVENTUALLY WILL BE TURNED OVER TO THE PRIVATE SECTOR FOR DEVELOPMENT. THIS REVERSAL PROBABLY PLEASED MOST MINING COMPANIES (ESPECIALLY THE BRAZILIAN-OWNED ONES), WHICH WERE UNHAPPY OVER THE PROSPECT OF YET ANOTHER GOVERNMENT-OWNED ENTITY COMING ON THE SCENE (BESIDES CVRD, SIX STATE GOVERNMENTS OPERATE RAPIDLY EXPANDING MING COMPANIES). IN VIEW OF THE RECENTLY HEIGHTENED DOMESTIC CONTROVERSY OVER "STATISM" (I.E., INCREASING PARTICIPATION IN THE ECONOMY OF STATE-OWNED FIRMS), WE BELIEVE THAT THE GEISEL ADMINISTRATION'S STATED DESIRE TO LIMIT "STATISM" AND PROMOTE PRIVATE ENTERPRISE PROBABLY HELPED TO MOTIVATE THE DECISION NOT TO ALLOW AN EXPANSION OF CPRM INTO MING.

8. LOCAL MINING MEN DISCOUNT UEKI'S CALL FOR A QUADRUPLING OF MINERALS EXPORTS BY THE END OF THE DECADE. WE SHARE DOUBTS THAT BRAZIL COULD ATTAIN THIS GOAL. UNLESS IRON ORE PRICES SKYROCKET, IT SEEMS UNLIKELY THAT MINERALS EXPORTS COULD JUMP FROM \$1 BILLION TO \$4 BILLION BY 1980. EXPORTS COULD WELL DOUBLE, HOWEVER. LAST YEAR'S IRON ORE EXPORTS TOTALED 72 MILLION TONS WORTH \$909 MILLION. BY 1979-1980, WITH EXPANSION PROGRAMS BY THE EXISTING PRODUCERS PLUS THE NEW SAMARCO PROJECT COMING ON STREAM,

IRON ORE EXPORTS COULD REACH 130 MILLION TONS. SHIPMENTS OF MANGANESE, BRAZIL'S SECOND-RANKING MINERALS EXPORT, WILL BE RESTRICTED. ICOMI HAS AGREED WITH THE GOB TO SHIP NO MORE THAN 1.2 MILLION TONS PER YEAR UNTIL ITS AMAPA RESERVES ARE EXHAUSTED (SHIPMENTS WERE 1.6 MILLION TONS IN 1975, VALUED AT \$81 MILLION). THE ONLY SIZABLE LIMITED OFFICIAL USE

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EXPORT-ORIENTED PROJECT DUE TO COME ON STREAM DURING THE REMAINDER OF THIS DECADE IS TROMBETAS BAUXITE. IT IS SCHEDULED TO PRODUCE 3.3 MILLION TYPY AND EARN ABOUT \$80 MILLION PER YEAR. BRAZIL'S POTENTIAL IN OTHER MINERALS IS BEGINNING TO BE REALIZED AS WELL, BUT THERE IS A LENGTHY TIME LAG BETWEEN DISCOVERING A PROMISING DEPOSIT AND PUTTING A MINE AND METAL PLANT ON STREAM. IN OUR JUDGEMENT, BARRING SKYROCKETING IRON ORE PRICES, BRAZIL'S MINERAL EXPORTS WILL NOT QUADRUPE UNTIL SEVERAL MAJOR EXPORT-ORIENTED PROJECTS (CARAJAS, ALBRAS, BAMINCO NICKEL, FOR INSTANCE) COME ON STREAM. GIVEN THE CONTINUING DELAYS IN CARAJAS AND ALBRAS, THESE PROJECTS COULD NOT COME ON STREAM UNTIL THE EARLY 1980'S AT THE SOONEST. THUS, WE WOULD EXPECT A QUADRUPLING OF EXPORTS WOULD NOT COME PRIOR TO THE EARLY 1980'S.
JOHNSON

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